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ASB meeting minutes, 2000, September 26-28; Auditing Standards Board approved highlights ,2000, September 26-28

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AUDITING STANDARDS BOARD

Meeting: Auditing Standards Board (ASB)
Date: September 26-28, 2000
Location: Newport Beach Marriott Hotel and Tennis Club
900 Newport Center Drive
Newport Beach, CA

Meeting

Attendance: Deborah D. Lambert, Chair
James S. Gerson, Vice Chair
Andy Capelli
Linda K. Cheatham
Robert F. Dacey
Richard Dieter
Sally Hoffman
J. Michael Inzina
Charles E. Landes
Scott McDonald
Keith O. Newton
Robert C. Steiner
George H. Tucker
Bruce Webb
Ray Whittington

Other Participants

Julie Anne Dilley, Technical Manager, Audit and Attest Standards
Gretchen Fischbach, Technical Manager, Audit and Attest Standards
Susan Jones, Senior Technical Manager, Audit and Attest Standards
Jane Mancino, Technical Manager, Audit and Attest Standards

Observers

Joseph Bentz, Grant Thornton LLP
Mimi Blanco-Best, Practitioner's Publishing Company
John Brolly, PriceWaterhouseCoopers LLP
Craig Crawford, KPMG Peat Marwick LLP
Robert Dohrer, McGladrey & Pullen LLP
Alan Paulus, Ernst & Young LLP
Laura Phillips, Ernst & Young LLP
Esmeralda Rodriguez, Securities and Exchange Commission
Jeffrey Thomson, Arthur Andersen LLP

Beth Schneider, Deloitte & Touche LLP
Thomas Wallace, Ernst & Young LLP

I. CHAIR'S AND VICE CHAIR'S REPORT

D. Lambert, and J. Gerson, provided an update on the Audit Issues Task Force (AITF) meetings of July 20, 2000 and September 13, 2000 and the results of the September 12th Planning Retreat.

II. AGENDA ITEMS PRESENTED AT MEETING

Technology Issues

George H. Tucker, Chair, Technology Issues Task Force (task force), presented a draft of a proposed Statement on Auditing Standards (SAS) amending AU section 319, *Consideration of Internal Control in a Financial Statement Audit*. The draft had been revised for comments made at the July ASB meeting.

After discussion and review of additional changes to the draft, the ASB voted unanimously to ballot the document for exposure. The ASB also concurred with task force plans to update the related AICPA Audit Guide, *Consideration of Internal Control in a Financial Statement Audit*, with a view that only minimal changes would be made to reflect the changes in the exposure draft.

The proposed SAS—

1. Incorporates and expands on the concept from SAS No. 80, *Amendment to Statement on Auditing Standards No. 31*, Evidential Matter (AICPA, *Professional Standards*, vol. 1, AU sec. 326.14), that in circumstances where a significant amount of information supporting one or more financial statement assertions is electronically initiated, recorded, processed, and reported, the auditor may determine that it is not practical or possible to restrict detection risk to an acceptable level by performing only substantive tests for one or more financial statement assertions. In such circumstances, the auditor should obtain evidential matter about the effectiveness of both the design and operation of controls to reduce the assessed level of control risk.
2. Describes how IT may affect internal control, evidential matter, and the auditor's understanding of internal control and assessment of control risk.
3. Describes both benefits and risks of IT to internal control, and how IT affects the components of internal control, particularly the control activities and information and communication components.
4. Provides guidance to help auditors determine whether specialized skills are needed to consider the effect of computer processing on the audit, to understand the controls, or to design and perform audit procedures.

5. Clarifies that in obtaining an understanding of the entity's financial reporting process, the auditor should understand how both standard, recurring entries and nonstandard, nonrecurring entries are initiated and recorded, and the auditor should also understand the controls that have been placed in operation to ensure that such entries are authorized, complete, and correctly recorded.
6. Updates terminology and references to IT systems and controls.

The proposed SAS does not—

1. Eliminate the alternative of assessing control risk at the maximum level and performing a substantive audit, if that is an effective approach.
2. Change the requirement to perform substantive tests for significant account balances and transaction classes.

Summary of Board Preference Vote
Amendment to SAS No. 55, Consideration of Internal Control
in a Financial Statement Audit

	Yes	No	Abstain	Absent
Should the revised draft of the proposed SAS, <i>Amendment to SAS No. 55, Consideration of Internal Control in a Financial Statement Audit</i> , be exposed for comment?	15	0	0	0

Omnibus SAS—2000

James S. Gerson led the discussion of the draft SAS entitled *Omnibus Statement on Auditing Standards—2000*. Mr. Gerson discussed the changes that had been made to the draft to address the comments received during the exposure period and which were discussed during the July 18–19, 2000, ASB meeting.

As a result of the discussion, the following changes were made to the draft SAS distributed prior to the meeting:

1. The proposed amendment to AU section 543.14 was deleted. The ASB will consider the proposed amendment to AU section 543.14 in connection with any reconsideration of the guidance in AU section 543.
2. The proposed amendment to paragraph .11 of AU section 315 was eliminated.

After discussion and review of the revised draft SAS, the Board voted unanimously to ballot the following proposed amendments for issuance in a final omnibus SAS:

Summary of Board Preference Vote
Omnibus Statement on Auditing Standards—2000

	Yes	No	Abstain	Absent
Withdrawal of SAS No. 75:	15	—	—	—
Amendment to AU section 508:	15	—	—	—
Amendment to AU section 315:	15	—	—	—

Mr. Gerson also reminded members that conforming changes to other SASs and SSAEs had been distributed and comments on the conforming changes should be submitted to G. Fischbach.

Attestation Recodification II

Charles (Chuck) Landes, chair of the Attestation Recodification II Task Force (task force), led the board's discussion of the revised drafts of AT sections 101 through 701 to address significant issues raised in the comment letters received on the April 14, 2000 exposure draft of the proposed Statement on Standards for Attestation Engagements (SSAE), *Attestation Standards: Revision and Recodification*.

The board:

- Discussed the proposed guidance in AT section 101 on the criteria and directed the task force to revise the guidance to state that the client is responsible for determining that the criteria are appropriate for their purposes.
- Supported the proposal to change the effective date from June 15, 2001 to June 1, 2001, to be consistent with the June 1, 2001 Codification of Professional Standards
- Reviewed the significant changes to AT sections 201 through 701 to conform them to AT section 101, *Attest Engagements*
- Was informed that when AT 200 (proposed AT 301), *Financial Forecasts and Projections*, was developed it was never the intention that reports on projections be required to refer to a specified user, although they often do. This was to allow the client to take the projection to, for example, a series of banks, each of which would negotiate directly with the client. The

board ultimately concluded that such reports should be restricted to specified parties, not a specified class of parties, to be consistent with other restricted-use attest reports.

- Directed the task force to conform those attest reports that refer to audits (for example, some reports on pro forma financial information and on management's discussion and analysis) for reference to auditing standards generally accepted in the United States of America, in accordance with SAS No. 93.

The board voted to ballot the draft for issuance as a final SSAE (see Summary of Board Preference Vote.).

Summary of Board Preference Vote
Attestation Recodification II

	<u>For</u>	<u>Against</u>	<u>Abstain</u>	<u>Absent</u>
Should the proposed draft of AT 101, <i>Attest Engagements</i> , and the related AT sections 201 through 701, as conformed for AT 101, be balloted for issuance as a final Statement on Standards for Attestation Engagements?	15	0	0	0

Audit Documentation

The audit documentation task force's charge was to "develop clear, concise, and consistent guidance regarding the objective, nature, and extent of audit documentation required for compliance with generally accepted auditing standards in a financial statement audit."

Although the task force has previously presented to the ASB a draft of a proposed documentation standard, the Audit Issues Task Force decided on September 13, 2000, that the Board should reconsider the objective of such a standard. D. Lambert led the discussion of the following four possible objectives of an audit documentation standard:

1. Audit documentation should provide the principal support for the auditor's report.
2. Audit documentation aids the auditor in the supervision and review of the audit.
3. Audit documentation should provide evidence that the firm's policies and procedures provide it with reasonable assurance that the work performed by engagement personnel meets applicable professional standards, regulatory requirements, and the firm's standards of quality.

4. An audit documentation standard should drive performance

After discussion, the Board asked the task force to further discuss the objectives at its next task force meeting, identify any threshold issues, and present these at the November ASB meeting. The task force should not attempt to draft a new standard until the threshold issues are presented to and discussed with the ASB.